



COMMISSION NEWS

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ARIZONA'S TOP 10 SCAMS, SCHEMES & SWINDLES

PHOENIX – The Arizona Corporation Commission's Securities Division today released a list of the top 10 investment scams it is combating. New to the third annual list are risky payphone and ATM investments, often sold by independent life insurance agents, and so-called "callable" certificates of deposit (CDs) sold to older Americans despite their 10- to 20-year maturities.

"Our volatile markets have investors, particularly older Americans, looking for predictable interest income or safe havens for their savings," said Mark Sendrow, Director of the Commission's Securities Division. "So scammers are pitching their investments as low risk and high return. That's an impossible combination. The higher the return, the higher the risk."

State securities regulators estimate that securities fraud costs Americans billions of dollars each year. While this year's Top 10 list includes old favorites, such as broadly marketed promissory notes, bogus prime bank schemes and risky viatical settlements (interests in the life insurance policies of supposedly terminally ill people), the people selling dangerous investments are moving out of the boiler room and onto Main Street. "What's new is that scam artists are recruiting independent life insurance agents to act as salespeople," said Corporation Commission Chairman William Mundell. "While the vast majority of agents are doing what they should and looking out for their clients, a growing minority, lured by high commissions, are relying solely on false or misleading marketing claims."

Here is a list of the top 10 scams, ranked roughly in order of prevalence or concern:

1. Unlicensed individuals, such as life insurance agents, selling securities. Call the Corporation Commission's Securities Division to verify that a person is licensed or registered to sell securities. If the person is not registered, don't invest. In the past 12 months, the Commission issued several "cease and desist" orders

against insurance agents who were selling securities without the proper license. Additionally, the Division helped bring criminal charges against several agents for defrauding their clients. Most were independent life insurance agents.

2. Affinity group fraud. Many scammers use their victim's religious or ethnic identity to gain their trust – knowing that it's human nature to trust people who are like you – and then steal their life savings. The largest securities fraud in Arizona's history involved the Baptist Foundation of Arizona. The Foundation sold over \$590 million in uninsured investments to members of the Southern Baptist churches in Arizona and throughout the United States. Investors were often less skeptical of the above-market returns that the Foundation was promising because of its affiliation with the church.
3. Payphone and ATM sales. In early March, 26 states and the District of Columbia announced actions against companies and individuals – many of them independent life insurance agents – that took roughly 4,500 people for \$76 million selling coin-operated customer-owned telephones. Investors leased payphones for between \$5,000 and \$7,000 and were promised annual returns of up to 15 percent. Regulators are finding that most of these investment programs are simply Ponzi schemes.
4. Promissory notes. These are short-term debt instruments issued by little-known or sometimes non-existent companies that promise high returns – upwards of 15 percent monthly – with little or no risk. Again, less scrupulous independent life insurance agents market many of these investments. Arizona residents have lost well over \$10 million in several promissory note scams uncovered by Commission investigations. Many of the cases involve elderly investors who have lost the bulk of their life savings. In one case, the perpetrator used investors' money to buy a yacht and maintain a lavish life style, instead of constructing a promised storage facility.
5. Internet fraud. Scammers use the wide reach and supposed anonymity of the Internet to “pump and dump” thinly traded stocks, peddle bogus offshore “prime bank” investments and publicize pyramid schemes. Last year, as a result of a new appropriation by the Legislature, the Commission's Securities Division launched an Internet fraud enforcement team that investigates suspicious investment schemes and follows up on investor complaints. The Corporation Commission urges investors to ignore anonymous financial advice offered on the Internet and in chat rooms.

6. Ponzi/pyramid schemes. Always in style, swindlers promise high returns to investors, but the only people who consistently make money are the promoters who set them in motion, using money from previous investors to pay new investors. Inevitably, the schemes collapse. Ponzi schemes are the legacy of Italian immigrant Charles Ponzi. In the early 1900s, he took investors for \$10 million by promising 40 percent returns from arbitrage profits on International Postal Reply Coupons.
7. “Callable” CDs. These higher-yielding certificates of deposit won’t mature for 10 to 20 years, unless the bank, not the investor, “calls” or redeems them. Redeeming the CD early may result in large losses – upwards of 25 percent of the original investment. The Corporation Commission’s Securities Division has many received complaints from retirees in their 70s and 80s who have invested thousands of dollars in “callable” CDs with 20-year maturities. These investors need the funds now to pay nursing home bills, for medical treatment and other living expenses. The Securities Division believes that sellers of callable CDs often don’t adequately disclose the risks and restrictions.
8. Viatical settlements. Originating as a way to help the gravely ill pay their bills, these interests in the death benefits of terminally ill patients are always risky and sometimes fraudulent. The insured gets a percentage of the death benefit in cash, and the investors get a share of the death benefit when the insured dies. These investments are extremely speculative because it is impossible to predict when someone will die. In a new twist, the Securities Division says that “senior settlements” – interests in the death benefits of healthy older people – are now being offered to investors.
9. Prime bank schemes. Scammers promise investors triple-digit returns through access to the investment portfolios of the world’s elite banks. Purveyors of these schemes often target conspiracy theorists, promising access to the “secret” investments used by the Rothschilds or Saudi royalty. The Securities Division has brought several cases involving millions of dollars in losses resulting from prime bank scams.
10. Investment seminars. Often the people getting rich are those running the seminar, making money from admission fees and the sale of books and audiotapes. These seminars are marketed through newspaper, radio and TV ads and “infomercials” on cable television. The Corporation Commission urges investors to be extremely skeptical about any get-rich-quick scheme.

The public is encouraged to investigate investment opportunities before investing by contacting the Securities

Division at 602-542-4242, toll free at 1-877-811-3878, or visiting its website at www.ccsd.cc.state.az.us.